

Interim Report 2005



CHINA SCIENCES
CONSERVATIONAL POWER LIMITED
中科環保電力有限公司

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INTERIM RESULTS

The board of directors (the "Board") of China Sciences Conservational Power Limited (the "Company") presents herewith the interim report and condensed financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 2 to 23 of this report.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June	
		2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Turnover	3	289,249	74,329
Cost of sales		(287,317)	(73,416)
Gross profit		1,932	913
Other revenue		8	21
Administrative expenses		(20,310)	(10,815)
Other operating expenses		–	(5,210)
Loss from operations	4	(18,370)	(15,091)
Finance costs	5	(697)	(275)
Net investment gain	6	119	1
Loss on disposal of subsidiaries		–	(3,404)
Gain on disposal of associate		–	38,826
(Loss) Profit before taxation		(18,948)	20,057
Income tax	7	–	–
(Loss) Profit for the period		(18,948)	20,057
Attributable to:			
Equity holders of the Company		(18,948)	20,057
Minority interests		–	–
		(18,948)	20,057
(Loss) Earnings per share for (loss) profit attributable to equity holders of the Company			
– Basic	9	(2.01) cents	3.96 cents
– Diluted	9	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

		As at 30 June 2005 (unaudited) HK\$'000	As at 31 December 2004 (audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	3,208	1,921
Goodwill	10	23,444	23,444
Other non-current asset	11	40,327	–
		<u>66,979</u>	<u>25,365</u>
Current assets			
Inventories		1,868	420
Trade and other receivables	12	194,002	107,575
Investments held for trading		1,178	1,064
Bank balances and cash		24,603	37,027
		<u>221,651</u>	<u>146,086</u>
Less: Current liabilities			
Trade and other payables	13	7,305	30,493
Obligations under finance leases		233	255
		<u>7,538</u>	<u>30,748</u>
Net current assets		<u>214,113</u>	<u>115,338</u>
Total assets less current liabilities		<u>281,092</u>	<u>140,703</u>

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2005

		As at 30 June 2005 (unaudited) HK\$'000	As at 31 December 2004 (audited) HK\$'000
	Notes		
Less: Non-current liabilities			
Obligations under finance leases		644	755
Convertible notes		20,000	20,000
		<u>20,644</u>	<u>20,755</u>
NET ASSETS		<u>260,448</u>	<u>119,948</u>
CAPITAL AND RESERVES			
Share capital	14	10,560	8,129
Reserves	15	249,881	111,812
		<u>260,441</u>	<u>119,941</u>
Total equity attributable to equity holders of the Company		<u>260,441</u>	<u>119,941</u>
Minority interests		<u>7</u>	<u>7</u>
TOTAL EQUITY		<u>260,448</u>	<u>119,948</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Net cash used in operating activities	(127,644)	(39,938)
Net cash (used in) from investing activities	(4,282)	49,802
Net cash from financing activities	<u>119,502</u>	<u>15,351</u>
Net (decrease) increase in cash and cash equivalents	(12,424)	25,215
Cash and cash equivalents at beginning of the period	<u>37,027</u>	<u>806</u>
Cash and cash equivalents at end of the period representing bank balances and cash	<u>24,603</u>	<u>26,021</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Six months ended 30 June 2005 (Unaudited)		Six months ended 30 June 2004 (Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity as at 1 January:				
Attributable to equity holders of the Company	119,941		34,290	
Minority interests (as previously presented separately from liabilities and equity as at 31 December 2004/2003)	<u>7</u>		<u>7</u>	
As at 1 January, after opening balance adjustment		119,948		34,297
Net income and expense for the period recognised directly in equity:				
Movement in translation reserve in relation to the disposal of an overseas associate	-		16	
Exchange difference on translation of overseas subsidiary	96		-	
(Loss) Profit for the period	<u>(18,948)</u>		<u>20,057</u>	
Total recognised income and expense for the period		(18,852)		20,073
Movements in shareholders' equity arising from capital transactions with equity holders of the Company:				
New issue and allotment of shares pursuant to the Subscription Agreement	-		17,021	
New issue and placing of 112,000,000 shares on 14 June 2004	-		15,143	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2005

	Six months ended 30 June 2005 (Unaudited)		Six months ended 30 June 2004 (Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004 (Note 14(i))	27,000			
New issue and allotment of shares for the acquisition of Dongguan China Sciences Conservational Power Co., Ltd. (Note 14(ii))	37,800		–	
New issue and placing of shares pursuant to the placing and underwriting agreement dated 23 March 2005 (Note 14(iii))	68,414		–	
New issue and allotment of shares pursuant to the subscription letter dated 23 March 2005 (as amended by the supplemental agreement dated 4 May 2005) (Note 14(iv))	23,400		–	
Exercise of share options	821			
Equity settled share-based transactions	1,917			
		159,352		32,164
Total equity as at 30 June		260,448		86,534

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies used in preparation of these condensed consolidated financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2004, except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKASs which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new standards are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 32, 33, 37, 39 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- (i) HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- (ii) HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 28, 32, 33, 37, 39 and HKAS-Int 15 had no material effect on the Group's policies.
- (iii) HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. CHANGES IN ACCOUNTING POLICIES (continued)

- (iv) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior periods, the provision of share options to employees did not result in an expense in the income statement. With effect from 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The new accounting policy has been applied retrospectively by decreasing the opening balance of accumulated deficits as at 1 January 2005 by HK\$4,956,000, with the corresponding amount credited to share option reserve. No adjustments to the opening balances as at 1 January 2004 are required as no options existed at that time which were unvested as at 1 January 2005.

The amount charged to the income statement as a result of the change of policy increased administrative expenses for the six months ended 30 June 2005 by HK\$1,917,000 (six months ended 30 June 2004: HK\$ nil), with the corresponding amounts credited to the share option reserve.

- (v) The adoption of HKFRS 3, HKAS 36 and HKAS 38 result in a change in the accounting policy for goodwill. In prior periods, goodwill arising on consolidation for acquisitions was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in accordance with the transitional arrangements under HKFRS 3, and the provisions of HKASs 36 and 38:

- The Group ceased amortisation of goodwill prospectively;
- The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill, with no comparative amounts restated;
- Goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amounts; and
- The Group has reassessed the useful lives of its intangible assets and no adjustment is resulted from the assessment.

3. TURNOVER AND SEGMENTAL INFORMATION

The principal activities of the Group are waste incineration and processing business, computer hardware and provision of maintenance support services, software design and development, and guaranteed income investments in a power plant and a motor spare parts business in the People's Republic of China (the "PRC").

Business segments

	Waste incineration and processing business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Power plant HK\$'000 (Note (i))	Motor spare parts business HK\$'000 (Note (i))	Consolidated HK\$'000
For the six months ended 30 June 2005 (unaudited)						
TURNOVER						
External sales	-	288,405	844	-	-	289,249
Contribution to (loss) profit from operations	(5,496)	79	(304)	-	-	(5,721)
Other revenue						8
Unallocated expenses (Note (ii))						(12,657)
Loss from operations						(18,370)

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

Business segments (continued)

	Waste incineration and processing business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Power plant HK\$'000 (Note (i))	Motor spare parts business HK\$'000 (Note (i))	Consolidated HK\$'000
For the six months ended 30 June 2004 (unaudited)						
TURNOVER						
External sales	-	73,845	484	-	-	74,329
Contribution to loss from operations	-	(420)	(758)	-	-	(1,178)
Other revenue						21
Unallocated expenses (Note (ii))						(13,934)
Loss from operations						(15,091)

Notes:

- (i) No return has been recognised in both periods as the recoverability of the guaranteed return is considered by the directors to be uncertain.
- (ii) There were no sales or other transactions between the business segments. Unallocated expenses mainly represent corporate expenses.

4. LOSS FROM OPERATIONS

	For the six months ended 30 June	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Loss from operations has been arrived at after charging the following:		
Depreciation and amortisation of:		
– property, plant and equipment	494	610
– goodwill arising on acquisition of subsidiary (included in other operating expenses)	–	5,210
	<u>494</u>	<u>5,820</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	–	268
Interest on convertible notes	679	–
Interest element of finance leases	18	7
	<u>697</u>	<u>275</u>
Total borrowing costs	<u>697</u>	<u>275</u>

6. NET INVESTMENT GAIN

	For the six months ended 30 June	
	2005 (unaudited) HK\$'000	2004 (unaudited) HK\$'000
Unrealised holding gain on investments held for trading	114	–
Interest income	5	1
	<u>119</u>	<u>1</u>

7. INCOME TAX

Current tax

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong had no assessable profit for both periods.

No provision for PRC income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for both periods.

Deferred tax

No deferred tax liabilities are recognised in the financial statements as the Group did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 30 June 2004 and 2005.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which asset can be utilised.

8. DIVIDENDS

No dividends were paid or declared for the six months ended 30 June 2005 (2004: Nil).

9. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the six months ended 30 June 2005 is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2005 of approximately HK\$18,948,000 (six months ended 30 June 2004: profit attributable to equity holders of the Company of approximately HK\$20,057,000) and on the weighted average of 944,310,360 ordinary shares (six months ended 30 June 2004: 506,963,474 ordinary shares) in issue during the period.

Diluted (loss) earnings per share for both periods have not been disclosed, as the potential ordinary shares outstanding during these periods had an anti-dilutive effect on the basic (loss) earnings per share for these periods.

10. CAPITAL EXPENDITURE

	Goodwill (unaudited) HK\$'000	Property, plant and equipment (unaudited) HK\$'000
For the six months ended 30 June 2005		
Opening net book amount as at 1 January 2005	23,444	1,921
Additions	–	1,971
Disposals	–	(190)
Depreciation charge (Note 4)	–	(494)
	<hr/>	<hr/>
Closing net book amount as at 30 June 2005	<u>23,444</u>	<u>3,208</u>

11. OTHER NON-CURRENT ASSET

Other non-current asset represents the consideration paid to the vendor for the acquisition of 39% equity interest in an equity joint venture established in the PRC, further details of which are set out in note 14(ii) to this report. The acquisition was approved by the shareholders of the Company pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 14 January 2005. The Group is in the process of obtaining the approval from the relevant PRC authority as required to complete the acquisition. As at 30 June 2005, the acquisition has yet to be fully completed and therefore the consideration was captured as other non-current asset.

12. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables at the balance sheet date is as follows:

	30 June 2005 (unaudited) HK\$'000	31 December 2004 (audited) HK\$'000
Up to 30 days	1,954	586
31 to 60 days	129	–
61 to 90 days	1,101	–
91 days or above	288	299
	<hr/>	<hr/>
Total trade receivables	3,472	885
Other receivables	190,530	106,690
	<hr/>	<hr/>
	194,002	107,575
	<hr/>	<hr/>

13. TRADE AND OTHER PAYABLES

The ageing analysis of trade payables as at the balance sheet date is as follows:

	30 June 2005 (unaudited) HK\$'000	31 December 2004 (audited) HK\$'000
Up to 30 days	949	437
31 to 60 days	192	–
61 to 90 days	–	4
91 days or above	4	2
	<hr/>	<hr/>
Total trade payables	1,145	443
Other payables	6,160	30,050
	<hr/>	<hr/>
	7,305	30,493
	<hr/>	<hr/>

14. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
As at 1 January 2005 and 30 June 2005	<u>120,000,000,000</u>	<u>1,200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
As at 1 January 2005	812,897,100	8,129
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004 (Note 14(i))	50,000,000	500
New issue and allotment of shares for the acquisition of Dongguan China Sciences Conservational Power Co., Ltd. (Note 14(ii))	70,000,000	700
New issue and placing of shares pursuant to the placing and underwriting agreement dated 23 March 2005 (Note 14(iii))	90,000,000	900
New issue and allotment of shares pursuant to the subscription letter dated 23 March 2005 (as amended by the supplemental agreement dated 4 May 2005) (Note 14(iv))	30,000,000	300
Exercise of share options	<u>3,100,000</u>	<u>31</u>
As at 30 June 2005	<u>1,055,997,100</u>	<u>10,560</u>

Notes:

- (i) On 23 November 2004, the Company entered into a conditional subscription agreement with Quadrant Investment Holdings Ltd. ("Quadrant") whereby the Company conditionally agreed to issue and allot to Quadrant and Quadrant conditionally agreed to subscribe for a total of 50,000,000 ordinary shares of the Company at HK\$0.54 per share. Completion of the subscription took place on 18 January 2005.

14. SHARE CAPITAL (continued)

- (ii) On 25 November 2004, China Green Power Holdings Limited (“China Green Power”), an indirect wholly owned subsidiary of the Company, entered into a conditional agreement with Sky Bright International Development Limited (“Sky Bright”), a company beneficially and wholly-owned by an executive director of the Company, Ms. Wong King King, pursuant to which China Green Power has conditionally agreed to acquire from Sky Bright 39% equity interest in Dongguan China Sciences Conservational Power Co., Ltd. 東莞中科環保電力有限公司, a sino-foreign equity joint venture established in the PRC, at a consideration of RMB42,900,000 (equivalent to approximately HK\$40,327,000). The consideration was satisfied in full on completion as to RMB40,211,640 (equivalent to approximately HK\$37,800,000) by allotment of 70,000,000 ordinary shares of the Company at HK\$0.54 per consideration share to Sky Bright; and as to the balance of RMB2,688,360 (equivalent to approximately HK\$2,527,000) by payment in cash.
- (iii) On 23 March 2005, the Company entered into a placing and underwriting agreement with Kim Eng Securities (Hong Kong) Limited (“Kim Eng”), pursuant to which the Company agreed to place, through Kim Eng, an aggregate of 90,000,000 shares, on a fully underwritten basis, at a placing price of HK\$0.78 per share. Completion of the placing took place on 8 April 2005.
- (iv) On 23 March 2005, the Company also entered into a conditional subscription letter (as amended by the supplemental agreement dated 4 May 2005) with Sky Bright, Mr. Hon Ming Kong, the chairman of the Company, CITIC International Assets Management Limited and CITIC Capital Investment Holdings Limited (the “Subscribers”), pursuant to which the Company agreed to issue and allot and the Subscribers agreed to subscribe an aggregate of 30,000,000 shares of the Company at subscription price of HK\$0.78 per share. Completion of the subscription took place on 30 June 2005.

15. RESERVES

	Attributable to the equity holders of the Company						
	Share				Total	Minority interests	Total equity
	Share premium	option reserve	Translation reserve	Deficit			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 January 2005	236,593	-	-	(124,781)	111,812	-	111,812
Prior period adjustment arising from changes in accounting policy: HKFRS 2 share-based payment	-	4,956	-	(4,956)	-	-	-
Minority interests (as previously presented separately from liabilities and equity as at 31 December 2004)	-	-	-	-	-	7	7
As restated	236,593	4,956	-	(129,737)	111,812	7	111,819
Loss for the period	-	-	-	(18,948)	(18,948)	-	(18,948)
Equity settled share-based transactions	-	1,917	-	-	1,917	-	1,917
Exchange difference on translation of overseas subsidiary	-	-	96	-	96	-	96
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004 (Note 14(i))	26,500	-	-	-	26,500	-	26,500
New issue and allotment of shares for the acquisition of Dongguan China Sciences Conservational Power Co., Ltd. (Note 14(ii))	37,100	-	-	-	37,100	-	37,100
New issue and placing of shares pursuant to the placing agreement dated 23 March 2005 (Note 14(iii))	67,514	-	-	-	67,514	-	67,514
New issue and allotment of shares pursuant to the subscription agreement dated 23 March 2005 (Note 14(iv))	23,100	-	-	-	23,100	-	23,100
Exercise of share options	790	-	-	-	790	-	790
As at 30 June 2005	391,597	6,873	96	(148,685)	249,881	7	249,888

15. RESERVES (continued)

	Attributable to the shareholders of the Company						
	Share					Minority interests	Total equity
	Share premium	option reserve	Translation reserve	Deficit	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 January 2004	491,076	-	(16)	(989,444)	(498,384)	-	(498,384)
Minority interests (as previously presented separately from liabilities and equity as at 31 December 2003)	-	-	-	-	-	7	7
As restated	491,076	-	(16)	(989,444)	(498,384)	7	(498,377)
Loss for the year, as previously reported	-	-	-	(6,584)	(6,584)	-	(6,584)
Prior period adjustment arising from changes in accounting policy: HKFRS 2 share-based payment	-	4,956	-	(4,956)	-	-	-
Loss for the year, as restated	-	4,956	-	(11,540)	(6,584)	-	(6,584)
Movement in translation reserve in relation to the disposal of an overseas associate	-	-	16	-	16	-	16
Reduction of capital pursuant to the Special Resolution and the sanction of the Order	(341,236)	-	-	871,247	530,011	-	530,011
New issue and allotment of shares pursuant to the Subscription Agreement	14,071	-	-	-	14,071	-	14,071
New issue and placing of 112,000,000 shares on 14 June 2004	14,023	-	-	-	14,023	-	14,023
New issue and placing of 134,660,000 shares on 23 September 2004	57,365	-	-	-	57,365	-	57,365
Exercise of share options	1,294	-	-	-	1,294	-	1,294
As at 31 December 2004	236,593	4,956	-	(129,737)	111,812	7	111,819

15. RESERVES (continued)

The Undertaking

Pursuant to the Order in connection with the reduction of share capital and reduction of share premium account as set out in note 25(i) of the 2004 annual financial statements, an undertaking was given by the Company that after the reduction of share capital and reduction of share premium account took effect, in the event of its making any future recoveries in respect of the assets (as identified in the First Schedule of the Order), in respect of which provision for diminution in value or depreciation was made in the accounts of the Company between 1 January 1998 and 30 June 2003, beyond their written down value in the Company's accounts as at 30 June 2003, all such recoveries beyond that written down value up to an amount of HK\$254,306,257.39 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company ("Special Capital Reserve").

While any debt of or claim against the Company, at the date on which the reduction of share capital and reduction of share premium account became effective (the "Effective Date"), remains outstanding and the persons entitled to the benefit of such debts or claims have not agreed otherwise, the Special Capital Reserve shall not be treated as realised profits for the purposes of section 79B of the Hong Kong Companies Ordinance and (for so long as the Company remains a listed company within the definition of section 2 of the Hong Kong Companies Ordinance) shall be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance or any statutory re-enactments or modifications thereof.

The undertaking, however, is subject to the following provisos:

- (1) the Company shall be at liberty to apply Special Capital Reserve for the same purposes as a share premium account may be applied;
- (2) the Limit in respect of Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;
- (3) the Limit in respect of Share Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of any of the assets (as identified in the First Schedule of the Order) by the amount of the provision made in relation to such asset as at 30 June 2003 (which amount is set out in the First Schedule of the Order) less such amount (if any) as is credited to Special Capital Reserve as a result of such disposal or realisation; and

15. RESERVES (continued)

The Undertaking (continued)

- (4) in the event that the amount standing to the credit of Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

16. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2005 not provided for in the financial statements are as follows:

	30 June 2005 (unaudited) HK\$'000	31 December 2004 (audited) HK\$'000
Authorised and contracted for in respect of acquisition of property, plant and equipment	<u>90,941</u>	<u>90,941</u>

(b) Operating lease commitments

As at 30 June 2005, the total future minimum lease payments under non-cancellable operating leases in respect of rented office premises and staff quarters are payable as follows:

	30 June 2005 (unaudited) HK\$'000	31 December 2004 (audited) HK\$'000
Within one year	3,370	140
In the second to fifth year inclusive	<u>5,113</u>	<u>30</u>
	<u>8,483</u>	<u>170</u>

17. CONTINGENCIES

As at 30 June 2005, the Group did not have any significant contingencies other than those disclosed elsewhere in this report or in the audited annual financial statements for the year ended 31 December 2004.

18. SUBSEQUENT EVENTS

- (i) On 8 September 2005, the Company entered into a subscription agreement with Tianyuan Development Limited (the "Subscriber"), a wholly-owned subsidiary of China Power International Holding Limited, pursuant to which the Company agreed to issue and allot to the Subscriber and the Subscriber agreed to subscribe a total of 65,000,000 shares of the Company at subscription price of HK\$0.76 per share.
- (ii) On 8 September 2005, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"), pursuant to which Kingston conditionally agreed to place 65,000,000 shares of the Company, at placing price of HK\$0.76 per share. Completion of the placing took place on 27 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 June 2005, the Group's turnover reached approximately HK\$289,249,000 (2004: HK\$74,329,000), representing an increase of 289.15% as compared with the corresponding period of last year. The increase in turnover was attributable to the increase in trading and distribution activities of the Group's computer hardware trading business. Gross profit from operations was approximately HK\$1,932,000 (2004: HK\$913,000), representing an increase of 111.61% over the corresponding period of 2004. Loss for the period was approximately HK\$18,948,000 (2004: Profit for the period: HK\$20,057,000). The profit recorded in 2004 was attributable to the gain of approximately HK\$38,826,000 from disposal of a non-profitable associated company. Basic loss per share was 2.01 HK cents (2004: Basic earning per share: 3.96 HK cents).

Business Review

As a result of the Group's strategic pursuit of the development of waste incineration and processing in the last financial year, the Group has successfully established a foothold in environmental protection business in the waste incineration and processing industry in the People's Republic of China (the "PRC"). Warranted by its unique business direction, on 28 January 2005, the company name has been changed from "Central China Enterprises Limited" to "China Sciences Conservational Power Limited" ("China Sciences"). The new name encapsulates the Group's objective to become the market leader in the waste combustion electric power industry in the PRC.

China Sciences had identified partners for collaboration in different companies and that explains its quick and smooth start in the new business area. During the review period, China Sciences continued to leverage its widespread network to embark on the following projects and acquisitions to expand its business:

- Announced the proposed acquisition of approximately 32.89% equity interest in Beijing China Sciences General Energy & Environment Co., Ltd. (“BCS General Energy & Environment”) in March 2005.
- Acquired 39% equity interest in Dongguan China Sciences Conservational Power Co., Ltd. (“Dongguan JV”) in March 2005.
- Proposed the acquisition of additional 51% equity interest in the Dongguan JV in April 2005, and completed the acquisition in July 2005.
- Proposed the acquisition of 80% equity interest in the Meizhou joint venture in April 2005, and completed the acquisition in July 2005.

In identifying potential projects or acquisitions, China Sciences concentrates on four major areas including popular destination cities for tourist, industrial cities, areas near dirty coal sources and major cities, which all have promising huge market potential.

During the period under review, China Sciences introduced to its board a number of new non-executive directors with strong industry background and extensive experience. They include His Royal Highness Prince Idris Abdallah Al-Senussi, Mr. Alan Grant Quasha, Mr. Lo Wing Yat, Kelvin and Mr. John Kuhns, and they bring with them expertise in areas including the energy sector, investment banking, venture capital, investing and financing in the PRC.

The introduction of new directors to the board is in line with China Sciences' strategic plan to build the strongest management team. Specific responsibilities are allocated to the senior management and there are specific teams in charge of various functions including overall corporate management and daily operations, fund management, energy industry and waste incineration technology. Most of the members of the board and the consultant team have decades of experience in their specific expertise areas. Moreover, the senior management has established an extensive network in the waste incineration and processing industry. Their connection is a valuable asset of China Sciences for exploring new projects in the future. China Sciences believes their extensive experience will benefit the Group's long term development.

Prospects

Strategies

In view of the continuous economic growth in the PRC which creates strong demand for power, the volatile crude oil price and the unstable international oil supply, the increasing need for renewable energy supply, and the increasing awareness of the need on environmental protection, China Sciences' is confident that waste incineration and processing for power generation in the PRC has a promising future with high return.

The strategic acquisitions of the five production plants laid a solid foundation for China Sciences to capture potential markets. The first production plant in Dongguan is scheduled to start operations in November 2005, followed by another four plants commencing operation in 2006, which will bring promising contributions to China Sciences in the long run. China Sciences plans to further extend its presence in other cities to widen its source of revenue.

To further strengthen its shareholder's base and financial position, on 8 September 2005, China Sciences entered into the Subscription Agreement with Tianyuan Development Limited ("Tianyuan Development"), a wholly-owned subsidiary of China Power International Holding Limited ("CPI"). China Sciences agreed to issue and allot 65,000,000 new shares to Tianyuan Development at a price of HK\$0.76 per share. In addition, China Sciences agreed to place 65,000,000 new shares to institutional investors at a price of HK\$0.76 per share. The net proceeds from the subscription and the placing are estimated to be approximately HK\$95,000,000. The proceeds will be mainly invested in developing China Sciences's waste incineration and processing business in the PRC. China Power Investment Group, one of the largest power generating groups in the PRC, is the holding company of CPI. The management strongly believes that with the introduction of the renowned and experienced investor from the energy field to China Sciences, China Sciences is well-positioned to tap the promising market opportunity.

In addition, on 12 September 2005, China Sciences entered into a letter of intent with Oriental Investment Corporation Limited, a company listed on the Stock Exchange of Hong Kong Limited (stock code: 00735) to explore the possibility of pooling their respective resources for the identification, development and operation of a new environmentally friendly energy-generating waste incineration plant in the PRC in the forthcoming years. This move marks a major milestone for China Sciences to consolidate the relations with its business partners to increase competitiveness in the industry.

Industry Potential

Current data has showed that the annual waste output has reached 140 million tonnes and the number is growing at 12% per annum. Only 2% out of the total waste output is treated by incineration and it is predicted to be increased up to 30%. Supported by the technology of circulating fluidized bed developed by BCS General Energy & Environment, China Sciences's plant can incinerate waste in an environmental-friendly way meeting Chinese national and European standards. With the demand for alternative waste treatment growing in the PRC, China Sciences enjoys a strong competitive edge as its incineration method incurs lower capital cost per tonne of daily waste and the plant takes about 18 months to construct, a relatively short construction period when compared with other foreign technologies.

At present the majority of all city waste is still dumped at landfill causing severe burden on the environment. Thus, the National Development and Reform Commission strongly encourages private companies to develop environmental businesses such as waste incineration and processing to help alleviate the problem. With the PRC government's advocacy and support, China Sciences has a strong leverage to develop the waste incineration and processing business in the country. China Sciences's mission – to solve the problem of pollution and provide a better living environment in the PRC, is in line with the government's objective. As such, China Sciences is able to benefit from various government policies. For instance, it enjoys higher tariffs and priority of supply versus conventional thermal power plants. China Sciences can also receive immediate refund of value-added tax of 17% and tax-free benefit for the first 2 years of operation and 50% off from years 3 to 5. All these policies served as key stimuli for China Sciences to grow its waste incineration and processing business.

In addition to solving the municipal solid waste ("MSW") problem in the PRC, the incineration and processing business can bring other economic benefits to China Sciences as the MSW incineration process generates useful byproducts. Each incinerator design can be custom-made and may have different end products. The incineration technology provided by China Sciences can generate electricity, steam, recyclable products like metal, plastic and paper, and bottom ash. These byproducts can generate alternate revenue stream for China Sciences in the years to come.

Share Capital Structure

During the period under review, the authorized share capital of China Sciences increased from HK\$1,200,000,000 to HK\$1,400,000,000, (i) as to HK\$1,200,000,000 divided into 120,000,000,000 ordinary shares of HK\$0.01 each, (ii) as to HK\$100,000,000 divided into 10,000,000,000 non-voting cumulative redeemable convertible class A preference shares of HK\$0.01 each and (iii) as to HK\$100,000,000 divided into 10,000,000,000 non-voting cumulative redeemable convertible class B preference shares of HK\$0.01 each in the capital of China Sciences having the special rights.

Liquidity and Financial Resources

The Group is financed by resources from its equity base; internal cash flow generated by operations and the proceeds of disposal of non-core assets and investments and bank borrowings.

As at 30 June 2005, the Group has net current assets of approximately HK\$214,113,000 (31 December 2004: HK\$115,338,000) and total equity attributable to equity holders of the Company of approximately HK\$260,441,000 (31 December 2004: HK\$119,941,000). The increase in net current assets and shareholders' funds were mainly attributable to the fund raising exercise as set out below.

During the period under review, the Group enlarged its shareholder base and strengthened its financial position through a number of new shares placements and fund raising exercises, including:

- On 23 November 2004, China Sciences entered into a conditional subscription agreement whereby it conditionally agreed to issue and allot a total of 50,000,000 ordinary shares at HK\$0.54 per share to the subscriber.
- China Sciences entered into a placing and underwriting agreement on 23 March 2005 for the placing of up to 90,000,000 new shares at HK\$0.78 to independent investors. The net proceeds amounted to approximately HK\$68,414,000.
- On 23 March 2005, China Sciences entered into a conditional subscription letter to issue and allot a total of 30,000,000 shares at a subscription price of HK\$0.78 per share. The net proceeds amounted to approximately HK\$23,400,000.

As at 30 June 2005, the Group had outstanding borrowing in respect of HK\$20,000,000 8.5 per cent. Extendable convertible notes due 2006. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, is 0.08 (31 December 2004: 0.17).

As at 30 June 2005, the Group had outstanding capital commitments in respect of acquisition of property, plant and equipment of approximately HK\$90,941,000.

As at 30 June 2005, the Group did not have any significant contingent liabilities and had no significant pledge of assets.

Saved as disclosed under headings "Business Review" above, the Group did not have significant new investments or acquisitions or disposals during the six months ended 30 June 2005.

Employee and Remuneration Policy

As at 30 June 2005, the Group had 65 employees, 33 of whom were based in the PRC. The Group remunerates its employees based on the duties, working experience and prevailing market practices. The Group has also adopted a share option scheme which awards its employees according to the performance of the Group and individual employees.

DISCLOSURE OF INTERESTS

I. Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2005, the interests or short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	Capacity	Personal interests	Family Interests	Corporate interests	Other interests	Total	Approximate % of shareholding
Hon Ming Kong (Note 1)	Interest of a controlled corporation and beneficial owner	6,500,000	-	295,000,000	-	301,500,000	28.55
Wong King King (Note 2)	Interest of a controlled corporation and beneficial owner	-	-	78,500,000	-	-	7.43
Chan Tat Chee	Beneficial owner	4,770,000	-	-	-	-	0.45
Chow Ho Tung, Anthony	Beneficial owner	2,500,000	-	-	-	-	0.24
Cheng Kin Chow, Tony	Beneficial owner	2,000,000	-	-	-	-	0.19

Notes:

1. By virtue of SFO, Mr. Hon Ming Kong is deemed to be interested in 295,000,000 shares of the Company held by Aimstar Holdings Limited, a company which is wholly owned by Mr. Hon Ming Kong.
2. By virtue of SFO, Ms. Wong King King is deemed to be interested in 78,500,000 shares of the Company held by Sky Bright International Development Limited, a company which is wholly owned by Ms. Wong King King.

(b) Long positions in underlying shares of the Company

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	As at 01.01.2005	Granted during the period	Exercised during the period	As at 30.06.2005	Market value per share	
								At date of grant of share options HK\$	At date of exercise of share options HK\$
Hon Ming Kong	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	-	-	8,000,000	0.4650	-
Wong King King	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	-	-	8,000,000	0.4650	-
Chow Ho Tung, Anthony	23.02.2004	23.02.2004 to 22.02.2014	0.2744	2,800,000	-	(2,800,000)	-	0.2500	0.85
	27.10.2004	27.10.2004 to 26.10.2014	0.4700	2,400,000	-	-	2,400,000	0.4650	-
Hon Yik Kwong	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	-	-	8,000,000	0.6700	-

Note:

1. No options granted to directors had been cancelled or lapsed during the six months ended 30 June 2005.

Save as disclosed above, as at 30 June 2005, none of the directors of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code.

II. Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2005, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued ordinary share capital of the Company:

Name	Capacity	Number of Shares held	Approximate % of shareholding
CITIC International Assets Management Limited (Note 1)	Beneficial owner	116,666,666 (Note 2)	11.05%
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.92%
CITIC Capital Markets Holdings Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.92%
Forever Glory Holdings Ltd. (Note 1)	Interest of a controlled corporation	83,590,000	7.92%
Golden Gateway Enterprises Inc. (Note 1)	Interest of a controlled corporation	83,590,000	7.92%
CITIC Pacific Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.92%
CITIC International Financial Holdings Limited (Note 1)	Interest of a controlled corporation	200,256,666	18.96%

Name	Capacity	Number of Shares held	Approximate % of shareholding
CITIC Group (Note 1)	Interest of a controlled corporation	200,256,666	18.96%
Aimstar Holdings Limited ("Aimstar") (Note 3 & 4)	Beneficial owner	295,000,000	27.94%
Hon Ming Kong	Interest of a controlled corporation and beneficial owner	301,500,000 (Note 5)	27.94%
Kingston Finance Limited (Note 6)	Person having security interest in shares	295,000,000	27.94%
Chu Yuet Wah (Notes 4 & 6)	Interest of a controlled corporation	295,000,000	27.94%
Ma Siu Fong (Notes 4 & 6)	Interest of a controlled corporation	295,000,000	27.94%

Notes:

1. CITIC Group is interested in 56% of the issued share capital of CITIC International Financial Holdings Limited. CITIC International Financial Holdings Limited is interested in 100% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SFO: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 116,666,666 Shares held by CITIC International Assets Management Limited and the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited; and (ii) CITIC International Assets Management Limited is interested in 50,000,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the

Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.

2. Out of the 116,666,666 Shares held by CITIC International Assets Management Limited, 66,666,666 Shares represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the Convertible Notes subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.
3. Aimstar is wholly owned by Mr. Hon Ming Kong, an executive director.
4. The 295,000,000 Shares held by Aimstar in which Mr. Hon Ming Kong who is an executive directors is deemed to be interested in, are pledged to Kingston Finance Limited.
5. The 301,500,000 Shares, comprise (i) 295,000,000 shares held by Aimstar and (ii) 6,500,000 shares held by Mr. Hon Ming Kong. As Aimstar is wholly owned by Mr. Hon Ming Kong, he is deemed to be interested in such 295,000,000 Shares held by Aimstar.
6. Kingston Finance Limited is held as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong. Accordingly, each of Chu Yuet Wah and Ma Siu Fong is deemed to be interested in the Shares held by Kingston Finance Limited.

Save as disclosed above, as at 30 June 2005, the directors of the Company were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued ordinary share capital of the Company.

III. Share Options

On 27 May 2002, a share option scheme (the “2002 Share Option Scheme”) was adopted. The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest (“Invested Entity”); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company’s shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

As at 30 June 2005, options to subscribe for an aggregate of 78,830,000 shares of the Company were outstanding and these options relates to the options granted to directors of the Company and employees of the Group.

During the six months ended 30 June 2005, the movements of the options granted under the 2002 Share Option Scheme of the Company to the employees of the Group other than the directors of the Company as shown under sub-paragraph I(b) of the heading "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" were as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	As at 01.01.2005	Granted during the period	Exercised during the period	As at 30.06.2005	Market value per share	
								At date of grant of share options HK\$	At date of exercise of share options HK\$
Employees									
In aggregate	23.02.2004	23.02.2004 to 22.02.2014	0.2744	300,000	-	(300,000)	-	0.2500	0.75
	12.08.2004	12.08.2004 to 11.08.2014	0.3850	32,930,000	-	-	32,930,000	0.3850	-
	31.01.2005	31.01.2005 to 30.01.2015	0.57	-	7,000,000	-	7,000,000	0.5700	-
	24.03.2005	24.03.2005 to 23.03.2015	0.84	-	6,000,000	-	6,000,000	N/A	-
	26.05.2005	26.05.2005 to 25.05.2015	0.69	-	6,500,000	-	6,500,000	0.69	-

Notes:

1. The trading of the Company's Shares was suspended on 24 March 2005.
2. No options granted to employees in aggregate had been cancelled or lapsed during the six months ended 30 June 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Code") throughout the six months ended 30 June 2005, except for the deviations stated below in relation to code provisions A.2.1, B.1.1 and E.1.2:

The roles of the chairman and the chief executive officer have been performed by Mr. Hon Ming Kong ("Mr. Hon"). Since Mr. Hon has in-depth knowledge of waste incineration industry in the PRC, he is the appropriate person to build the business in the PRC at the developing stage (*code provision A.2.1*).

The remuneration committee was set up on 27 September 2005 in accordance with the relevant requirements of the Code, which comprises three independent non-executive directors of the Company (*code provision B.1.1*).

Mr. Hon was appointed as chairman of the Company on 11 November 2004. Since Mr. Hon had another business engagement, he did not attend the annual general meeting for the year ended 31 December 2004 held on 30 May 2005, which was attended by the former chairman Mr. Chan Tat Chee (*code provision E.1.2*).

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company and has reviewed with management the accounting principles and practices adopted by the Group and the unaudited interim financial statements of the Group for the six months ended 30 June 2005.

By order of the Board
Hon Ming Kong
Chairman

Hong Kong, 28 September 2005

As at the date of this interim report, the Board comprises five executive directors, namely Mr. Hon Ming Kong (Chairman), Ms. Wong King King (Vice-Chairman), Mr. Chan Tat Chee, Mr. Chow Ho Tung, Anthony, and Mr. Hon Yik Kwong; four non-executive directors, namely, His Royal Highness Prince Idris Abdallah Al-Senussi, Mr. Alan Grant Quasha, Mr. Lo Wing Yat, Kelvin and Mr. John Douglas Kuhns; and three independent non-executive directors, namely, Mr. Cham Yiu Keung, Mr. Chan Chi Yuen and Mr. Cheng Kin Chow, Tony.